


THE WHITE HOUSE

WASHINGTON

May 13, 1982

MEMORANDUM TO EDWIN L. HARPER

FROM: DAN J. SMITH 

SUBJECT: A Major Problem with FY 1982 Minority Business Procurement Goals

Issue

Should the President order a renegotiation of the overall 1982 minority business procurement goal? If so, what level should the higher goal be?

Background

Each year an aggregate procurement goal for procurement from minority businesses is set by the Federal government. This goal combines anticipated purchasing from minority businesses in three programs: the 8(a) program, prime contracting and subcontracting.

For Fiscal Year 1982, a goal of \$3,702 million was established. This goal is 10 percent less than what was actually achieved in FY 1982 (\$4,112 million) and comes during a year when overall Federal procurement is expected to increase 6 percent. This information has not as yet been made public.

This proposed reduction would represent the first decline in minority purchasing in eight years and provides a sharp contrast to the 31% growth from FY 1980 to FY 1981 (see Exhibit I).

Further, it would result in the first decrease in minority business share of total procurements in eight years (see Exhibit II). The FY 1982 results will compare very unfavorably with prior Federal performance in this area (see Exhibits III - VI).

The lower overall goal, which was only discovered recently, apparently results from:

- The change this year in having the SBA have sole responsibility for setting goals (this also contributed to our finding out about this so late in the fiscal year).
- Uncertainty among certain agencies, who approached the SBA with lower goals for the year, as to whether the graduation of certain 8(a) firms this fiscal year would reduce their ability to maintain past levels of procurement.
- The absence of any indication from the White House that

-2-

minority procurement was still the priority it had been in the past.

Just over 58% of the procurement in these three programs were conducted at the Department of Defense. Ten departments are responsible for 90% of minority procurement.

According to the SBA and the Department of Defense, most minority procurement occurs during the last two quarters of the year.

Implications

Effectively negates the President's pledge to do more in this area, including the attached letter (see Exhibit VII) where he states "This Administration is committed to expanded development and encouragement of minority business." In fact, we are set to do a great deal less (\$400 million), despite campaign assurances to the contrary.

Undermines the positive effects likely to be derived from the proposed Presidential Minority Enterprise Initiative. It will be hard to convince the minority business community that the President's initiative is well intentioned when in a major area of interest we plan to do less when further advances are possible. What has the potential of being perceived as a major advancement, containing many useful initiatives, is likely to be overshadowed once it is understood that we seek to do less minority procurement this year.

Beyond the effect on the proposed initiative, given the extensive disenchantment already extant in the organized minority business community due to fixed terms in the 8(a) program, the realization that our procurement goals are actually less (some already suspect this because of difficulties they are experiencing with some agencies) is likely to have a devastating effect on the President's standing in the minority business community.

A task force having representatives from SBA, Commerce, OFPP, and OMB, and operating under the Working Group on the Federal Role in Minority Business Development has reviewed this situation and this memo reflects their analysis and recommendations.

Analysis

1. The lower goal is not prompted by a lower capacity of Federal agencies to procure from minority business but rather the aforementioned special set of circumstances. (Please note that the widespread agency concern that frequently used 8(a) firms were about to graduate was unfounded because of the one-year minimum phase-out provision of the final rule. Hence, few if any 8(a) firms will graduate during FY 82.)
2. Though it is extremely late in the fiscal year to consider

-3-

renegotiating procurement goals, the assessment of persons at SBA and OFPP who have a working knowledge of the procurement process believe that a substantially higher goal is still achievable this year -- but prompt action is required. This assessment is based in part on the fact a disproportionate amount of minority business procurement is done during the last two quarters.

3. Presidential involvement is viewed as essential to an effective solution to this problem.

Options

Seven options have been considered (See Exhibit VIII for the dollar effect of these options).

1. Do nothing and keep the dollar goal set by SBA.

(The following six options assume that the goals would be renegotiated.)

2. Set a dollar goal equal to FY 1981.
3. Keep the market share constant at FY 1981 level.
4. Set a dollar goal consistent with the last annual increase in market share (+6%).
5. Set a dollar goal consistent with a 20% per year dollar growth policy.
6. Set a dollar goal consistent with a 3-year average in dollar growth (+31.3%).
7. Set a dollar goal consistent with a 5-year average in dollar growth (+39%).

Analysis

Option 1 would result in the adverse consequences discussed in the implications section.

Option 2 would increase FY 82 results back to FY 1982 levels but does not demonstrate Presidential commitment to expanded minority business development.

Option 3 provides for a 5% and \$212 million improvement over FY 1981. Such an increase is substantially below recent performance.

Option 4 provides for a 10% and \$411 million improvement over FY 1981. Such an increase does not compare favorably with recent dollar level increases. It does provide for a 6% increase in the

-4-

share of total procurement going to minority businesses.

Option 5 provides for a 20% and \$822 million improvement over FY 1981. Such an increase is less than recent performance, and appears unachievable at this time.

Option 6 provides for a 31.3% and \$1,287 improvement over FY 1981. Such an increase is consistent with recent performance, and appears very unachievable at this time.

Option 7 provides for a 39% and a \$1,604 million improvement over FY 1981. Such an increase is consistent with performance over a longer period of recent history, and appears very unachievable at this time.

Recommendation

Option 4. Have the President immediately send out a memo to heads of departments and agencies (see attached draft) and instruct the Administrator of the SBA to negotiate a higher goal with those agencies having lower goals than their FY 1981 actual performance. Seek as a result of these negotiations a new FY 1982 goal 10% higher than FY 1981 actual procurement levels. This recommendation would:

1. Reverse a potentially devastating situation and avoid undermining the forthcoming minority enterprise initiative.
2. Clearly demonstrate the President's stated intention to go more in the area of Federal minority enterprise development.
3. Set the highest achievable goal under the circumstances.

Institutional Viewpoints

This recommendation has been reviewed by the Working Group on the Federal Role in Minority Business Development and carries their endorsement. The Deputy Administrator of the SBA indicated on Tuesday that his agency supports this solution. Frank Carlucci's office at Defense believes the department can achieve a 10% higher goal. However, they would require a Presidential directive on this during the next week or so in order to have a reasonable opportunity to reach the higher goal.

Final Note

If your schedule will permit, I would appreciate an early opportunity to discuss this matter further with you.

cc: Roger Porter
Wendell Gunn

RATE OF INCREASE-FEDERAL MINORITY PROCUREMENT
YEAR TO YEAR MBE CHANGE
1969-1981

<u>FISCAL YEAR</u>	<u>Total Procurement</u>	<u>Minority Procurement</u>	<u>Year to Year Percent Change</u>
1969	\$50,229	\$.013	--
1970	43,323	.030	+131%
1971	45,013	.146	+387
1972	45,650	.385	+164
1973	44,893	.737	+ 91
1974	48,675	.701	- 5
1975	57,206	.808	+ 15
1976	57,678	.816	+ 1
1977	72,427	1.052	+ 29
1978	82,845	1.813	+ 72
1979	91,665	2.484	+ 37
1980	98,910	3.140	+ 26
1981	120,667	4.112	+ 31
1982	127,172	3.702*	- 10

Notes

Amount in Billions
FY 76 & TO 76 Annualized
*Current Unrevised Goal

RATE OF INCREASE-FEDERAL MINORITY PROCUREMENT
PERCENT MBE TO TOTAL PROCUREMENT
1969-1981

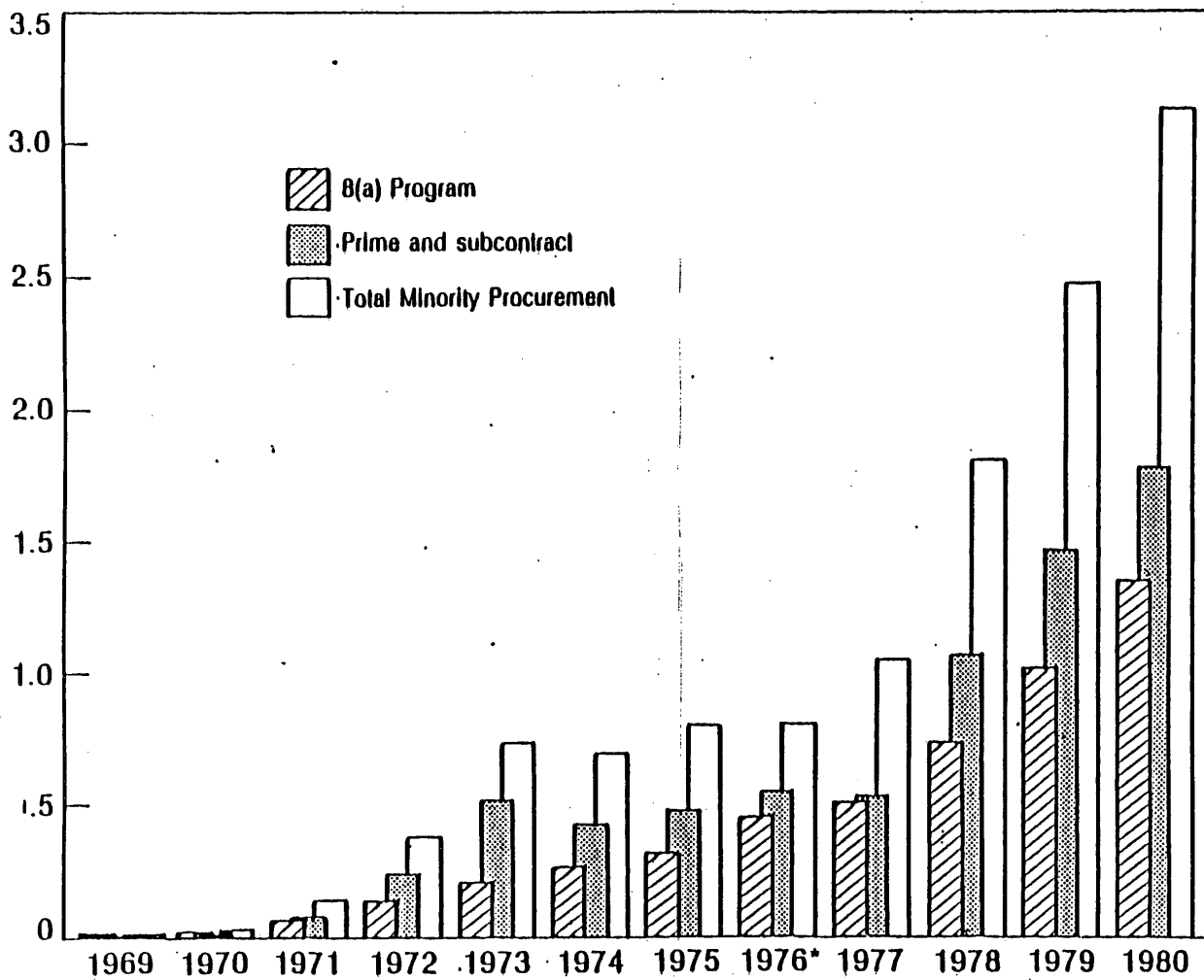
<u>FISCAL YEAR</u>	<u>Total Procurement</u>	<u>Total MBE Procurement</u>	<u>Percent MBE To Total</u>	<u>Year to Year Increase</u>
1969	\$50,229	\$.013	.03%	--
1970	43,233	.030	.07	+133%
1971	45,013	.146	.3	+329
1972	45,650	.385	.8	+167
1973	44,893	.737	1.6	+100
1974	48,675	.701	1.4	- 13
1975	57,206	.808	1.4	0
1976	57,678	.816	1.4	0
1977	72,427	1.052	1.5	+ 7
1978	82,845	1.813	2.2	+ 47
1979	91,665	2.484	2.7	+ 23
1980	98,910	3.140	3.2	+ 19
1981	120,667	4.112	3.4	+ 6
1982	127,172	3.702*	2.9	- 15

Average increase 1977-1980: 24%
Linear regression trend projection (1977-1980) for 1982 = 28%

Notes

Amounts in Billions
FY 76 + TO 76 Annualized
*Current Unrevised Goal

Billion of dollars

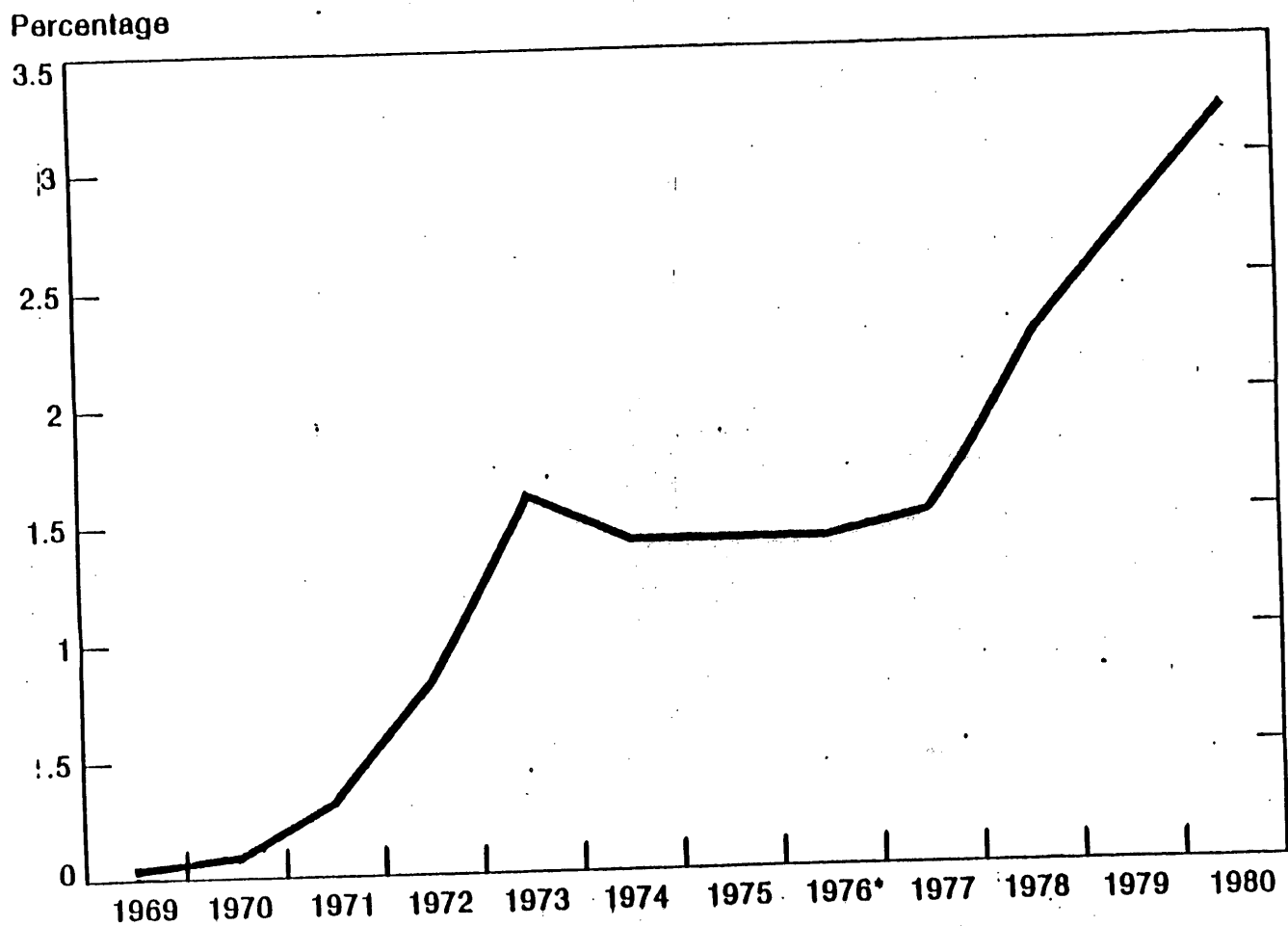


Ref: MBDA Form 91

* Annualized to account for transitional quarter

Approved For Release 2007/10/26 : CIA-RDP83M00914R002300010036-1

FEDERAL PROCUREMENT FROM MINORITY BUSINESS MINORITY PERCENTAGE TO TOTAL PROCUREMENT FY 1969-1980



Ref: MBDA Form 91

*Annualized to account for transitional quarter

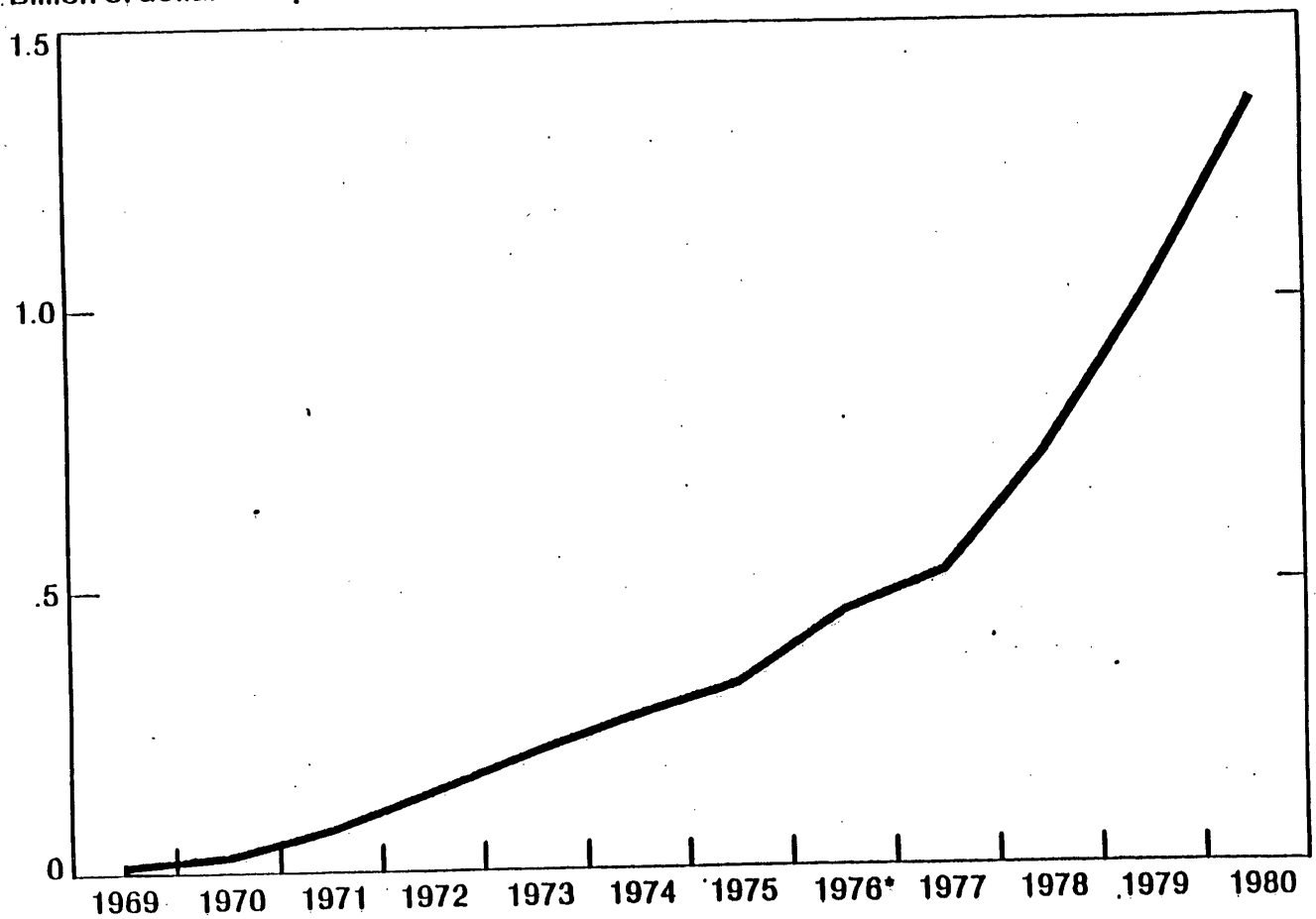
FEDERAL PROCUREMENT FROM MINORITY BUSINESS

Approved For Release 2007/10/26 : CIA-RDP83M00914R002300010036-1

8(a) PROGRAM

FY 1969-1980

Billion of dollars



Ref: MBDA Form 91

* Annualized to account for transitional quarter

FEDERAL GOVERNMENT CONTRACTS WITH MINORITY BUSINESS

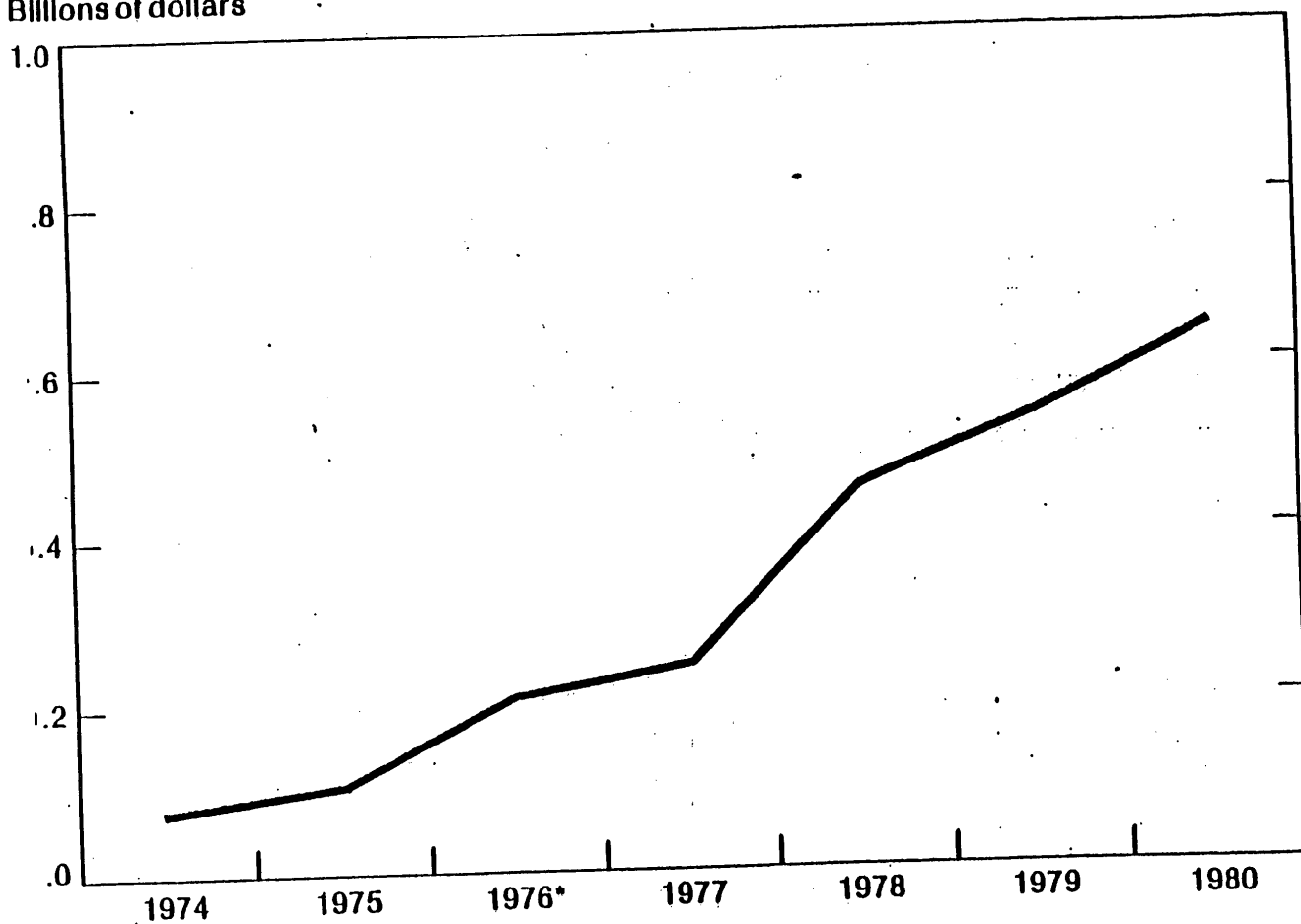
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Exhibit VI

SUB CONTRACTS

FY 1974-1980

Billions of dollars



Ref: MBDA Form 91

* Annualized to account for transitional quarter